

SEC47-B

Page 1

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. HO-13388-A
KIK INTERACTIVE)

SUBJECT: KIK APP TO INTEGRATE KIN CRYPTOCURRENCY

PAGES: 1 through 23

AUDIO TRANSCRIPTION

Diversified Reporting Services, Inc.

(202) 467-9200

Page 2

PROCEEDINGS

MALE SPEAKER: Welcome to another episode of the Finance Magnate's Blockchain Podcast, and today's guest is Ted Livingston, the CEO and founder of Kik. If you don't know, Kik is a messenger app with over 300 million users, mostly from North America, and it will be launching a token sale for the Kin cryptocurrency this summer. Thank you for joining us, Ted. Would you please tell us about the project?

MR. LIVINGSTON: Yeah, sure. First of all, thanks for having me. I'm excited to be here. Really cool to find out that you're hosting this from Tel Aviv, where we have an office.

So -- yeah, so we announced a couple months ago a new cryptocurrency we're going to launch called Kin, and basically what Kin is, is for us, it's a new way to monetize a consumer app, but also a new way to compete with these big companies that are increasingly monopolizing digital services.

MALE SPEAKER: I see. So, I guess we all know who those are at least in the west, right? It's Facebook and Google. And so, why do you think that a cryptocurrency specifically will give you a heads up on them?

MR. LIVINGSTON: So, I think it's two things.

Page 3

I think the first thing is these big companies have made it really hard for all the other consumer applications out there to monetize.

So, you know, these big companies are the only ones with the scale and the data to effectively monetize through advertising. And so, then they go ahead and they make everything else free.

So, as Kik, or any other consumer company, you're trying to compete with these big companies and make money. You can't do ads, because you don't have the scale of the data, and you can't sell anything, because consumers have this expectation that everything should be free.

And so, you just have no way to compete. With a cryptocurrency, what got us really excited about it back in 2011, believe it or not, is this idea that it could provide a third option.

So, now you could build a consumer community, and instead of showing them ads, or instead of trying to sell them stuff, you just bring people together, getting them -- providing value to each other through a cryptocurrency, and the more they did it -- did that, the more valuable the cryptocurrency would become.

And so, by setting some aside for yourself in the beginning, the more valuable your chunk would become.

Page 4

So, first of all, it's a fundamentally new way to monetize a chat community, which we thought was really cool, but I think the second way -- the second thing that gets us excited is it's also a fundamentally new way to compete -- a fundamentally new way to get a large group of people working together towards a common mission.

And so, for us, that's like building out this ecosystem of all these great places that consumers can go that have these rich digital experiences. And so we said, well, what if we took a big chunk of Kin, and set it aside for all the developers who would help us build out that ecosystem through something we call the Kin rewards engine.

Basically, almost like the mining fee, but instead of going to miners to pay out -- to run the infrastructure, going to developers to pay them out for helping us build this broader open and decentralized ecosystem for consumers.

MALE SPEAKER: I see, and can you give us an example of a few apps that you think can grow in this ecosystem?

MR. LIVINGSTON: Yeah. So, the interesting thing about a cryptocurrency -- sort of the counter-intuitive thing -- the new thing about it is, it's no longer about showing ads, it's no longer about showing

Page 5

stuff, it's about bringing people together to provide value to each other through a cryptocurrency.

So, in Kik, for example, what that could look like is hosting a group chat. So, we have a feature in chat called public groups, and public groups are places that are based on interest where somebody creates it and hosts it, and then people join from all over the world, and discuss around a topic, but to be a host, you're providing value to the community.

You know, you're hosting a great chat, you're moderating it, you're keeping the conversation interesting. You're providing real value, but today on Kik, you're doing that for free. You as a consumer are getting no compensation for that whatsoever.

So now with something like Kin, we can give users the option to perhaps charge a cover fee to get into those groups. So, if you're somebody that says, "Hey, listen, I host the best group chats on football, you know, I only have 50 slots in my group chat, way more people want to get in than there actually is room in those group chats, so maybe if you want to get in and you want to get in front of the line, you can pay one kin," and then on the flip side, I'm going to -- so, I'm going to earn a bunch of kin, I'm going to go on the other side, and then I might join a bunch of other group chats

Page 6

1 that I'm interested in. Maybe there's one on, you know,
2 baseball, or whatever else I'm interested in.

3 And so now as a developer, we're not trying to
4 sell users stuff, we're trying to bring them together to
5 provide value to each other through this cryptocurrency.

6 So, that could be group chats in Kik, that
7 could be creating and consuming music on a music
8 platform. That could be, you know, hosting and joining
9 clans in a game. Anywhere where consumers are coming
10 together and providing value to these networks can be a
11 great place where cryptocurrency can fit.

12 MALE SPEAKER: Just -- actually, that's a very
13 interesting idea. It reminds me of the criticism that
14 mainly Facebook gets for basically monetizing, you know,
15 user content without giving back anything. So, you
16 know --

17 MR. LIVINGSTON: Totally. Yeah, it's -- we
18 live in this world where we all work for these big
19 companies for free, and you know, then we wonder why
20 they're worth half a trillion dollars, it's -- hey, if
21 you can get the entire world to work for free for you
22 too, it would probably be that valuable as well.

23 MALE SPEAKER: Yeah.

24 MR. LIVINGSTON: And I don't think that's
25 right.

Page 8

1 impose some regulations on Kin?

2 MR. LIVINGSTON: I think the idea that tokens
3 that are securities will get regulated like securities
4 get -- makes complete sense. You know, you look at the
5 DOW tokens, which is what the guidance was on, and the
6 DOW tokens were basically a fund of funds that were, you
7 know, pooling funds to invest in other projects, and then
8 paying back out dividends to the people that held those
9 tokens. That is, like, a classic security.

10 Like, that's almost, like, the definition of a
11 security. And so, for the SEC to come in and say, hey,
12 you know, we looked at what the DOW did, and you know,
13 guys, this is like a fund of funds. It's obviously a
14 security, and therefore should be regulated like a
15 security, makes complete sense to us, and it's fully
16 expected.

17 I think, like, when you look at the utility
18 token side, there is no guidance given on that. And so,
19 there are no rules in that space. It's an emerging
20 space.

21 And so, we're working with, you know, the top
22 lawyers all over the world to make sure not just that we
23 follow the rules, obviously we do that, but also we're
24 trying to anticipate where the rules will land, and
25 provide us sort of the most thoughtful, buttoned up way

Page 7

1 MALE SPEAKER: There's a great book on that
2 called, "Who owns the future?" I forgot -- I forgot the
3 author, but you know, it's a -- it's a really good book
4 for anyone that's -- interesting with -- you know,
5 further information about that.

6 MR. LIVINGSTON: I've read that book as well,
7 actually. It is -- I can agree, it's a good book.

8 MALE SPEAKER: Mm-hmm. So, let's -- so,
9 regarding the token sale, how much do you plan to raise,
10 if that's already planned?

11 MR. LIVINGSTON: So, we're still locking down
12 the exact amount, which we hope to announce shortly, but
13 I think for us, we're trying to figure out the right
14 number that's not too greedy, it gives us the right
15 amount of runway to achieve this sort of ambitious
16 vision. And so, once we have that, we'll share that with
17 the community.

18 MALE SPEAKER: Interesting. Okay. So, we'll
19 be looking forward to that, and other than that, I wanted
20 to know regarding the -- you know, what are the risks,
21 you know, considering that, you know, recently the SEC in
22 the US came out against -- or, not came out against, I'd
23 say it was about -- said that some tokens can be
24 qualified as securities, right? Is there a chance that,
25 you know, regulators are going to impose, you know --

Page 9

1 to not only do a token distribution event, but also to
2 build one of these decentralized networks.

3 MALE SPEAKER: Mm-hmm. That's interesting.
4 We'll see how it -- you know, how it develops. I'm
5 seeing right now, you know, different regulators are
6 starting to ask questions, starting to see, you know,
7 what can be done. So --

8 MR. LIVINGSTON: What about you? What do you
9 think the risks are? Like, either in the space broadly,
10 or with Kin specifically? Like, we'd want to hear what
11 you think.

12 MALE SPEAKER: Well, Kin, actually, it's
13 supported by a strong product. So, you know, it has less
14 of a problem regarding the investors I would say, but
15 most ICOs right now, you know, they don't really offer a
16 product or a system that it's built on.

17 So, as far as I can see, a lot of them will not
18 be successful at the -- at the end, just because, you
19 know, most start ups are not successful, and just if you
20 give, you know, randomly, you'd give a hundred people,
21 you know, a million dollars to start a company, one will
22 succeed, right?

23 MR. LIVINGSTON: Right, right.

24 MALE SPEAKER: Yeah. So, you know, there's
25 obviously that danger, for the companies themselves, you

Page 10

1 know, or should I say for teams, you know, because your
2 organized company is established, with access to top
3 lawyers, but I think some of the new guys that are just
4 setting up, you know, an ICO for a new project, and they
5 don't know what they're getting into, maybe in a few
6 months, they'll get a call from the SEC. I think that
7 that's a scary thought for a lot of people.

8 MR. LIVINGSTON: Yeah, and it's funny. It's
9 actually -- you know, this is sort of, like, a counter-
10 intuitive thing, but it's actually hard to spend a lot of
11 money? You know, and I -- when I look at this space,
12 like, how much money is going to some of these projects
13 that just have a few people, on one side, it's
14 definitely, like, exciting.

15 Like, wow, look at all this financial support
16 to fund the development in this new space, and like, you
17 know, I think the blockchain's basically going to
18 revolutionize the world, so that's awesome.

19 But also, it is a little -- it creates problems
20 in ways that, you know, you wouldn't anticipate, which
21 actually reduces the odds that some of these projects
22 will succeed. You know, if you have \$100 million in the
23 bank and you're five guys, you know, all of a sudden,
24 like, one of your cofounders goes out and buys, you know,
25 \$100,000 computer.

Page 11

1 He's like, oh, well, I need this \$100,000
2 computer. And then you say, well, if you're going to get
3 \$100,000 computer, I'm going to get a \$10,000 chair, or
4 whatever. And all of a sudden, like, you know, it takes
5 some time to put in place the right sort of process and
6 controls to be able to, like, productively spend that
7 amount of money.

8 So, it will be interesting to see how some of
9 these projects deal with that, and you know, if there's
10 anything ever we can do to help some of those projects
11 think through that, always happy to help as well.

12 I think the other really interesting thing you
13 hit on is just, like, on the consumer side. Like, I
14 think definitely some of the projects will not pan out as
15 everybody hoped, and that there will be some
16 disappointment at the end of the day for sure, and people
17 will lose money at the end of the day for sure.

18 Like, how do you think about -- because
19 regulation on one side, you're trying to protect the
20 consumer, but on the other side, you're trying to allow
21 and encourage innovation. Like, how do you think those
22 two things should be balanced in this space?

23 MALE SPEAKER: Well, me personally, I think
24 that as long as the investors are -- let's say, Bitcoin
25 Wales, right? If it's people that have a lot of holdings,

Page 12

1 and they're diversifying their holdings -- you know,
2 crypto holdings, you know, that's -- they should be left
3 alone, right? They know what they're doing.

4 MR. LIVINGSTON: Mm-hmm.

5 MALE SPEAKER: When it gets to more, you know,
6 retail traders, I definitely think there needs to be at
7 least self-regulation at this stage, because I can see,
8 like, in Israel -- you know, I can see that the
9 regulators already are -- you know, probably because of
10 the Bank Corp, you know, ICO -- that they're already
11 trying to focus on that, and you know, it will be wise,
12 you know, if the -- if like, the ecosystem can prevent
13 horror stories in the newspapers, you know, coming out in
14 a month from now, or six months from now, because after
15 that, you know, people can -- regulators can come down
16 hard.

17 MR. LIVINGSTON: Right.

18 MALE SPEAKER: So, you know, hopefully, they'll
19 focus on investors with, you know, a lot of crypto
20 holdings, whether it's Bitcoin or Ethereum, and you know,
21 not too much retail traders.

22 MR. LIVINGSTON: Right.

23 MALE SPEAKER: Speaking -- mm-hmm.

24 MR. LIVINGSTON: Yeah, I think it's --

25 MALE SPEAKER: Speaking -- speaking about

Page 13

1 investors, I've seen that, you know, Kik has over the
2 years raised over \$100 million, right? So -- from
3 traditional venture capital means. So, how do you view
4 the ICO process versus the, you know, traditional funding
5 process?

6 MR. LIVINGSTON: Sorry, my calendar just came
7 up here. I think it's really interesting. I think
8 traditional fundraising processes have been good for us.
9 You know, the great thing about building a consumer start
10 up when it's next to impossible to make money is it keeps
11 you very honest, because, you know, every 18 months or
12 so, you're running out of money, and you need to raise
13 more, and if you can't raise more, you know, you go out
14 of business.

15 And so, that has been the history of Kik, is
16 sort of every 18 months, we need to convince somebody
17 that, listen, this is our big vision, this is how we
18 think we can make the world a better place, and how we
19 think we can make a lot of money as we do it, and
20 therefore you should give us a bigger and further
21 investment.

22 And so, I think that's been good. It forces
23 sort of urgency in the company. You know, "Hey guys, we
24 really need to get this done, because once we get it
25 done, then you know, we'll have this great story, and

Page 14

1 with that story, we'll raise more money, and you know,
2 effectively save the company," as a consumer company that
3 doesn't make revenue.

4 So, in a way, I think that's been really good,
5 but I think that the really interesting thing about
6 crypto is it's just sort of fundamentally new, and
7 fundamentally more powerful.

8 You know, I think compared to VC investing, for
9 example, one, you can get in at basically any stage and
10 in any amount, and two, you can get out at any stage, and
11 in any amount, and I think that's really compelling, you
12 know, this idea that I can get in early, identify
13 something that could be big.

14 If I'm right, it can go up in value. I can
15 sell maybe half of the crypto I hold and let the rest
16 keep going. On the other side, I think that's also the
17 challenge of crypto fundraising, which is, how do you
18 sort of figure out which are the good ones, and which are
19 not, and then how do you keep these teams sort of honest
20 and executing on the vision that they laid out?

21 Because I think that's the hard thing now.
22 There's a lot of projects right now. They're all raising
23 lots of money. It's hard to know which are the good ones
24 and which are not, and then once those projects get that
25 money, it's hard -- it's hard to see, you know, if when

Page 16

1 Like, they want these amazing projects to get
2 funded, to happen, for there to be lots of innovation in
3 this space, to share in the economic upside of that, but
4 at the same time, you know, keep consumers and, you know,
5 retail traders safe.

6 MALE SPEAKER: Yeah. I think there needs to
7 be, you know, a move towards self-regulation, and if
8 you're doing a project, you know, raise the amount that
9 you need. I would say that, you know, don't make it a --
10 you know, an unlimited -- you know, an unlimited amount,
11 so you can get to, like, a fabulous -- but of course,
12 nobody has an interest to that.

13 You know, it would have to be enforced by the
14 investors themselves. If people are going to limit what
15 they're investing, you know, to projects that the -- you
16 know, that have a -- you know, a reasonable valuation,
17 right?

18 If you're selling 90% of your -- of your new
19 coin at a -- at a rate of -- you know, as a total sum
20 of -- of, you know, \$300 million, I would say that's too
21 much, and they have to think about what they're saying,
22 but having said that, we can see certain -- let's just
23 say certain messaging apps that do IPOs without -- you
24 know, I wouldn't say, you know, having any revenue, but
25 without really providing, you know, a justification for

Page 15

1 we were five people eight years ago, somebody had given
2 us \$100 million.

3 Like, that would've been runway forever, and
4 there would've been no sense of urgency to figure out the
5 next phase of the vision so that you could create the
6 next version of the story so you could go out and raise
7 more money, and keep the company alive.

8 Now, it's like, hey guys, like, you know, we
9 could spend a million dollars a year for the next 100
10 years, and we still wouldn't have run out of money. So,
11 I think that's going to be the challenge of crypto, is
12 picking out which ones are the good ones versus the bad
13 ones, and then creating that sense of urgency and
14 accountability behind the teams.

15 MALE SPEAKER: Yeah. The incentives right now
16 are -- how to say, out of whack, I would say.

17 MR. LIVINGSTON: So, what --

18 MALE SPEAKER: (Inaudible) actually
19 developing --

20 MR. LIVINGSTON: What do you think we could do
21 about that? Like, how does -- how does this space get
22 through that? And this is honestly where I think, you
23 know, regulators can play a role and be part of that
24 conversation. Like, at the end of the day, I think
25 everybody wants the same thing.

Page 17

1 their -- for their -- for their IPO valuation, you know,
2 as far as I can -- as far as I can tell as, like, a
3 traditional investor, not a -- you know --

4 MR. LIVINGSTON: Yeah.

5 MALE SPEAKER: But that's -- mm-hmm?

6 MR. LIVINGSTON: Yeah. I think that's exactly,
7 and I think you, like, hit the nail on the head, and it's
8 like, this is why -- like, sometimes, there's this
9 tendency in this space to say, hey, like, all regulation
10 is bad, and all regulators are bad, but I actually don't
11 think that's the case.

12 You know, at the end of the day, if there's a
13 way to break the rules. You know, let's say -- like,
14 let's use an extreme case, and say there's a project out
15 there, and they have no -- no -- they're not planning at
16 all to actually build up a project. They just want to
17 take a bunch of money, and then you know, pay themselves
18 a ridiculous salary for a long time, and you know,
19 they're going to raise \$500 million to do that.

20 Like, I think we could all agree like, hey --
21 like, okay guys, you shouldn't do that, but if there's a
22 way to do it, and there are no consequences for doing it,
23 then everybody's going to look at that and say, hey, they
24 did it, like, why can't -- why shouldn't we do that as
25 well?

Page 18

1 And quickly the whole space could spiral where,
2 you know, now it's really a race in marketing effectively
3 to who can get -- market the best project possible, raise
4 the most money, and then disappear with that money.

5 And so, that's where -- really where regulation
6 is important is to say, hey guys, these are the rules of
7 the game. You know, we're going to set up the rules,
8 we're going to enforce the rules, but other than that,
9 like, innovate like crazy, bring this technology to
10 market, and make it the next big thing in the world, but
11 you need -- you need both sides.

12 You need, like, clearly established rules that
13 are enforced, but then you also need a way to -- you
14 know, inside of those rules, innovate as much as you can,
15 and it's a very tricky balance, but a very necessary one.

16 MALE SPEAKER: Yeah. Right now, people that
17 ask me about, you know, the future of ICOs, they're going
18 to ask me, like, how long will this last? I say, you
19 know, this is definitely the future.

20 This isn't going anywhere, but maybe we need
21 a -- you know, like a dot-com bubble that cleared out,
22 you know, the Pets.com of the early internet, okay? So,
23 people would say, okay -- so, I'm going to invest in a --
24 in a -- in a blockchain -- a cryptocurrency, if it makes
25 sense, not just because it has, you know, the word ICO in

Page 20

1 so what that means is, like, these blockchain projects --
2 these ICOs, they want to go into every corner of the
3 internet, but in those corners of the internet, there are
4 local regulation rules, and you know, obviously China is
5 a great example of that.

6 You know, they sort of have a -- you know,
7 effectively their own internet at some level, and on one
8 side -- so, the real interesting thing for us -- like, I
9 don't think it -- you know, we would obviously love to
10 have China, and people in China -- developers in China
11 involved in Kin and the project as much as possible,
12 because we're trying to build a -- you know, a global,
13 decentralized ecosystem of digital services, but at the
14 end of the day, if people from China were not involved,
15 I'd, you know, sort of be like that's too bad, but that's
16 okay.

17 I think the real challenge is going to be on
18 the regulator side, you know, and I think this is what
19 they're looking at, is hey, blockchain is global,
20 innovation is global, but our regulation is only local.

21 And so, on one side, if we don't regulate
22 enough, consumers aren't going to be protected, but on
23 the other side, if we regulate too much, then all the
24 innovation will just move somewhere else, because there
25 is going to be countries putting up their hands and

Page 19

1 the title, which --

2 MR. LIVINGSTON: Right.

3 MALE SPEAKER: -- right now, most people, you
4 know, don't do. I mean, I've spoken to investors that
5 tell me -- you know, they're -- because there's so many.
6 There's no time to check. They don't read the white
7 paper. They just diversify, and hope for the best.

8 MR. LIVINGSTON: Yeah, yeah, and 90% of these
9 ICOs are going up on the first day. You know, you
10 don't -- there's no incentive to check. Just get into
11 them all, but that won't last forever, and so I think
12 you're exactly correct. Like, this is here to stay, but
13 this idea that everyone goes up, you know, that's going
14 to go away at some point. It has to.

15 MALE SPEAKER: Yeah. So, another question I
16 wanted to ask you. I can see we're -- do you have time
17 for another question, or are you --

18 MR. LIVINGSTON: Yeah --

19 MALE SPEAKER: -- got to run?

20 MR. LIVINGSTON: -- five minutes.

21 MALE SPEAKER: I just -- great. So, I wanted
22 to ask you about the importance of China for ICOs.

23 MR. LIVINGSTON: I think this is -- that's
24 going to be the interesting part, is because blockchain
25 as a technology is global, but regulation is local, and

Page 21

1 saying hey, we're going to be the best place in the world
2 to do these ICOs, whether that's, you know, Switzerland,
3 or Singapore, or anywhere else.

4 And so, I think that's going to be the
5 challenge that China has to deal with, the United States
6 has to deal with, that Canada, where we're from has to
7 deal with, which is, what is that thin line of regulation
8 where on one side, we're protecting the consumer, but
9 where on the other side, we're not stifling innovation
10 such that innovation just goes somewhere else, and we
11 miss out on this era of technology innovation, and that's
12 definitely a conversation that, like, we're starting to
13 have around the world with different regulators, and you
14 know, trying to figure it out together.

15 MALE SPEAKER: And what about token investors,
16 because you know, other, you know, ICOs, other projects
17 told me they saw about 60% (inaudible) coming from China.
18 So, how do you -- how do you view that, and what's your
19 marketing accordingly?

20 MR. LIVINGSTON: So, we are going to sort of
21 reveal all the details around our token distribution
22 event hopefully soon, you know, and it's one of these
23 things where it's always, like, just one more thing to
24 figure out, just one more thing to figure out, because,
25 like, as a big company, and as an established company,

Page 22

1 where there's been a lot of time and money invested, we
 2 just have to make sure we do everything perfectly, but I
 3 think at that time, you'll see -- like, we're going to
 4 take a little bit of a different approach to, on one
 5 side, you know, do a cap sale that's not greedy, but on
 6 the other side, make it as fair as possible such that
 7 anybody who wants to participate can.

8 And so, we'll see how that goes. It's -- you
 9 know, it is a bit of an experiment. We have done a
 10 presale, so we -- you know, we feel we have enough
 11 capital to fund the project, and so really now it's about
 12 trying to get as many people as possible to come be a
 13 part of this project with us, and hopefully a lot of
 14 those are in China, but just given where the global
 15 regulation is, and regulation in each country, it may or
 16 may not happen.

17 MALE SPEAKER: I see. Okay, Ted. I want to
 18 thank you for a very interesting talk, and I want to
 19 thank our audience for joining us again. Please share
 20 this video, like it, and subscribe so you can keep
 21 following us for more blockchain and ICO news. Thank
 22 you, Ted.

23 MR. LIVINGSTON: Thanks for having me.
 24 (End of audio.)

25 * * * * *

Page 23

1 TRANSCRIBER'S CERTIFICATE
 2
 3 I, ERIC AXI, hereby certify that the foregoing
 4 transcript is a complete, true and accurate transcription
 5 of all matters contained on the recorded proceedings in
 6 the matter of:
 7 KIK INTERACTIVE, FILE: KIK TO INTEGRATE KIN
 8 CRYPTOCURRENCY.

9
 10
 11
 12 _____
 13 Transcriber
 14
 15
 16
 17
 18
 19
 20
 21
 22
 23
 24
 25